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Potatoes and Potato Products Annual

China's Potato Production to Increase to 101 MMT

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Report Highlights:

China's MY2014/15 fresh potato production is estimated at 101 million metric tons, a 5 percent increase from MY2013/14. This increase is largely attributed to an expanding crop area. Additionally, Post forecasts MY2014/15 potato starch production at 360,000 MT, up 20 percent from 300,000 MT in MY2013/14. As a result of China's increased domestic potato production, Post forecasts imports of frozen French fries to decrease 5 percent in MY2014/15 to 128,000 metric tons.

Production:

China is the largest potato producer in the world despite its relatively low potato yields. According to Ministry of Agriculture, China's average potato yield in MY2013/14 was 17MT/ha, about 1/3 of the U.S. yield. Reasons for the low yields are the use of low-quality seed potatoes and incidence of disease. Industry sources note that virus free seed potatoes only account for 20 percent of total seed potato used in China.

Fresh potatoes

Post forecasts China's fresh potato production for MY2014/15 will reach 101 million metric tons (MMT), a 5 percent increase from the previous year due to an expansion of the potato crop area. China's potato crop area is estimated at 5.9 million hectares in MY2014/15, about five percent increase from the previous year. According to industry sources, high potato prices in MY2013/14 encouraged this expansion. Potato production in Sichuan, Gansu, Inner Mongolia, Yunnan, Guizhou, Shandong, Heilongjiang, Chongqing and Shaanxi provinces account for approximately 75 percent of total production. About 60 percent of China's potatoes are planted on arid or semi-arid land without irrigation accessibility.

Potato production is generally found in four growing zones in China:

- 1) The northern single crop zone - This area accounts for 50 percent of China's total potato acreage. The potatoes produced in this area are mainly used for seed potatoes, direct consumption and processing. Potatoes in this zone are usually planted in late April to early May and harvested from September through to October. This zone includes Heilongjiang, Jilin, Liaoning, Inner Mongolia, Gansu, Xinjiang, Qinghai, Ningxia, Shanxi and Shaanxi provinces.
- 2) The southwestern mixed crop zone - This area accounts for 37 percent of China's total potato acreage. The potatoes produced in this area are mainly used for processing and direct consumption. Potatoes in this zone are usually planted in September through November and harvested from February through April. This zone includes Sichuan, Guizhou, Yunnan, Tibet, Chongqing, and part of Hunan and Hubei provinces.
- 3) The central double crop zone - This area accounts for 8 percent of total acreage. Spring potatoes are planted in February through March and harvested during May or June. Autumn potatoes are planted in July-August and harvested in October-November. The potatoes produced in this area are mainly for export and direct consumption. This zone includes Jiangxi, Jiangsu, Zhejiang, Anhui, Shandong and Henan provinces.
- 4) The winter crop zone - This area accounts for 5 percent of total acreage. Potatoes are in this zone are planted in October–November and harvested in February–March. The potatoes produced in this area are mainly for export and direct consumption. This zone includes Guangdong, Fujian, Guangxi, and Hainan provinces.

Processed potatoes

Processing potatoes account for 10-15 percent of total production, and include such products as starch, frozen french fries, chips, and dehydrated potatoes. The production rate for processing potatoes has remained the same for the last several years because of the lack of processing potato varieties and a shortage of modern potato storage facilities.

Potato starch

China's MY2014/15 potato starch production is forecast at 360,000 MT, a 20 percent increase from 300,000 MT in MY2013/14, as a result of an increase fresh potato production. Industry sources indicate approximately 7-8 tons of fresh potatoes can produce 1 ton of starch.

China's potato starch production capacity exceeds one million metric tons but inadequate storage facilities, and outdated technology, keep production between 350,000-500,000 metric tons. China's starch manufacturers are also highly fragmented with production split between thousands of producers and only a few firms have production that exceeds over 8,000 MT.

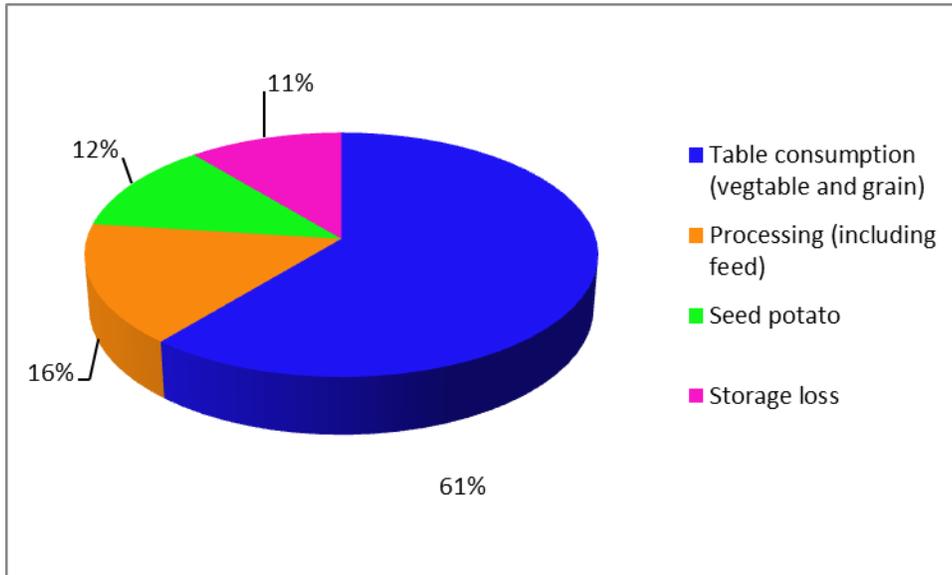
Frozen French Fries (FFF)

China's MY2014/15 FFF production is forecast at 180,000 MT, a 38 percent increase from the estimated 130,000 MT in MY2013/14. Drivers for the increase in FFF production are a larger fresh potato supply and new production capacity coming online in 2015. FFF production has strict fresh potato requirements, such as shape, starch content, sugar content, and color. Therefore, processors usually contract with farmers to produce potatoes that can meet certain quality conditions.

Consumption:

The majority of fresh potatoes are used for direct consumption. Although updated data is not available, Post believes the structure of China's potato consumption remains stable.

Figure1. China's Potato Consumption Structure in 2009-2011



Source: Vegetable and Flower Research Institute, China Academy of Agricultural Science

China's FFF consumption will continue to increase in the coming years. Continued urbanization and resulting increasing number of fast food restaurants, the major market channel for FFF, will underpin consumption growth.

Potato starch is widely used in food products and is also consumed by other industrial sectors such as textile, paper mill, chemical, and pharmaceutical industries. Potato starch consumption fluctuates with price as other starch inputs, such as corn and bean, are easily substituted for potato starch.

Trade:

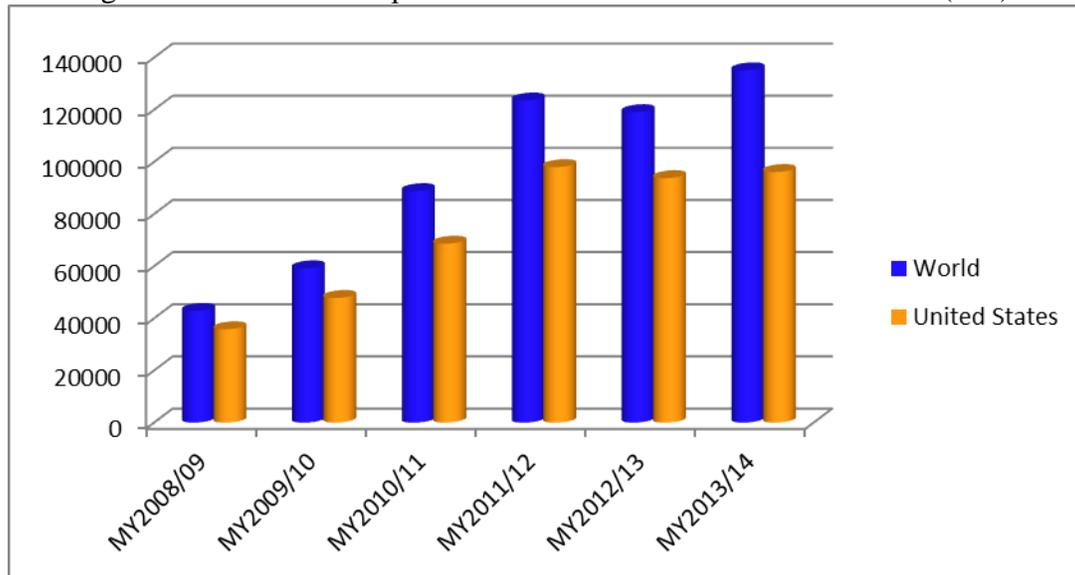
Imports

Frozen French Fries (FFF)

Post forecasts China's MY2014/15 FFF imports (H.S. Code: 20041000) at 128,000 MT, a 5 percent decrease from MY2013/14 due to the increase in domestic supply. The United States continues to dominate China's imported FFF market, accounting for 71 percent of total imports in MY2013/14, followed by Canada, accounting for 20 percent of total imports.

China's total FFF imports and U.S. market share have been relatively stable in past three years (see figure 2 below). Industry believes this trend may continue over the next several years since a moderate increase in domestic demand may be filled by the increase in domestic production.

Figure2. China's FFF imports from the world and the United States (MT)



Source: Global Trade Atlas

Fresh Potatoes

China does not allow market access for fresh potato imports due to SPS concerns. However, The United States is in active negotiations for fresh *table-stock potato market access*.

Potato Starch

Post forecasts China's MY2014/15 potato starch (H.S. code: 11081300) imports at 36,000 MT, a 5 percent decrease from 38,151 MT in MY2013/14 due to the domestic production increase.

China imposed anti-dumping duties on imported potato starch from the EU in 2007. After the duties expired, MOFCOM launched a review of its anti-dumping measures on Feb. 3, 2012 at the request of the China Starch Industry Association. On February 5, 2013, China's Ministry of Commerce announced it would extend anti-dumping duties on EU potato starch imports for another five years.

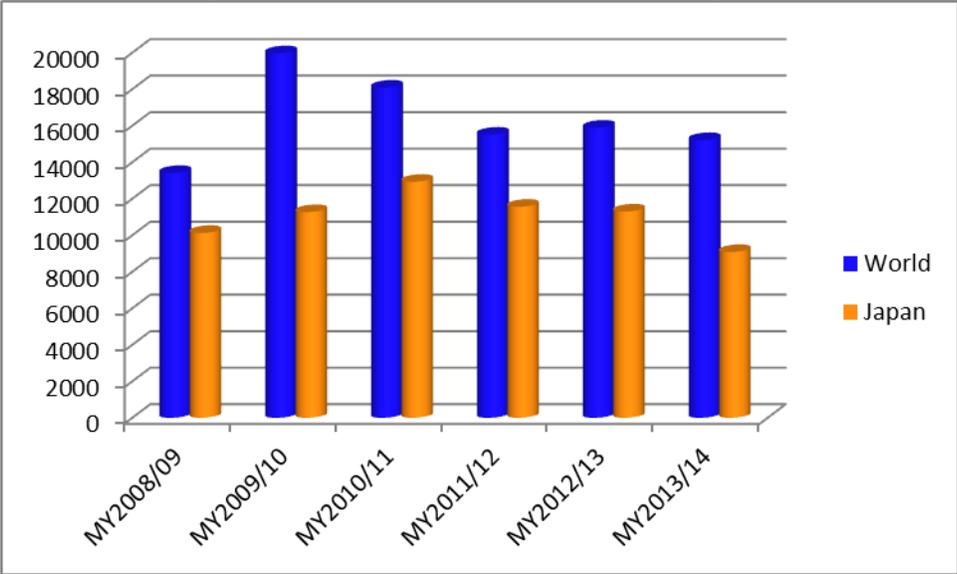
Exports

Post forecasts China's MY2014/15 fresh potato (H.S. code: 0701) exports at 530,000 MT, a 10 percent increase from 487,890 MT in MY2013/14 because of strong demand from Russia. In early August 2014, Russia announced that it is suspending imports of meat, fish, fruit, vegetables and milk products from the United States, European Union, Norway, Canada and Australia for a year. As the largest potato producer in the world, China is expected to benefit from this policy and increase its potato exports to Russia in MY2014/15. Malaysia, Russia, Vietnam and Pakistan are the four largest export markets for China, accounting for nearly 70 percent of China's total fresh potato exports in MY2013/14.

China's MY2014/15 FFF exports are forecast at 15,500 MT, a slight increase over the 15,209 MT exported in MY 2013/14. Japan continues to be the largest buyer of China's FFF, accounting for 60

percent of China’s total exports in MY2013/14. China’s FFF exports have been stable over the last three years (see figure 3 below).

Figure 3: China’s FFF exports to the world and Japan (MT)



(Source: GTA)

Marketing:

Quick Service Restaurant (QSR) chains have been the largest buyers of frozen potato products in China, along with hotels, restaurants, and bars. Industry sources believe that third-tier cities represent great potential for FFF consumption because after 20 years of rapid expansion, western fast food outlets have saturated first/second-tier cities while consumers in the third-tier have less exposure to fast food outlets but are adopting similar food consumption habits as their peers in more developed cities such as Beijing and Shanghai.